

The American Automotive Reorganization and Recovery Plan

Working families throughout our country are struggling to pay their bills and facing economic anxieties not seen in America for generations. Employers are finding themselves torn between staying in business and laying off people over the holidays. Nowhere are these challenges more acute than in states that are heavily dependent on auto manufacturing. It is essential that Washington address these challenges not through taxpayer-funded bailouts that prolong working families' pain and put taxpayers' money at risk, but by fixing problems and removing barriers that make it harder for working families to prosper.

Washington has failed this basic test with respect to the American auto industry. Republicans want to make certain that in its response to the resulting crisis, Washington does not fail American taxpayers as well. A responsible plan should do two things: it should protect taxpayers, and it should help auto workers and their families by allowing the Big Three to become competitive again. The Democrats' plan does neither. Congress should not be stampeded into rubber-stamping a plan that guarantees failure at the taxpayers' expense.

The Democratic Bailout proposal has three fundamental flaws:

- The only thing crazier than trusting the same management and union officials who got the Big Three into this mess to get them out is trusting a bunch of Washington politicians and bureaucrats – the very same people who ran up a \$455 billion deficit last year. **American auto workers and their families deserve better.**
- If no private investors believe the Big Three restructuring plans are realistic enough to support with their own money, why should we put up taxpayer money? **American taxpayers deserve better.**
- The Big Three restructuring plan and the Democratic proposal lack accountability. There is no guarantee that once they get taxpayer money the restructuring they promise will occur. Once the taxpayers prop them up once, there will be a big incentive to keep bailing them out – keeping the industry dependent on government aid and further denying American auto workers the security of a viable industry that is back on its feet and ready to compete. **American auto workers and their families deserve better.**

What We Should Be Doing: The American Automotive Reorganization and Recovery Plan

Hard Benchmarks:

On December 2, the Big Three presented to Congress their plans for restructuring. While the plans included laudable goals, too few details were provided as to how the companies will actually achieve the restructuring and the savings they have promised. In some instances new agreements to achieve the savings would not be entered into for months or perhaps years.

The Big Three must lock in the restructuring they have promised in a matter of weeks, not months or years. Congress should instead establish firm benchmarks and a tight timeline for restructuring. Such benchmarks will include for example requiring that by March 31, 2009 each company should reach agreement whereby:

- The companies' creditors agree to a framework to reduce each company's indebtedness by at least 1/3.
- The UAW holds to concessions already made and further:
 - o Concedes the elimination of Supplemental Unemployment Benefits;
 - o Concedes elimination of the Jobs Bank Program;
 - o Agrees to either reduce company retiree health care obligations or otherwise convert a portion of such obligations into equity; and
 - o Agrees to reduce wages and benefits to the levels paid by non-Big Three manufacturers.

A Process for Reaching Expedited Agreement, Instead of Nationalizing America's Auto Companies

Because of the many legal and contractual hurdles to restructuring, the companies are urged to accomplish their restructuring through the use of a pre-packaged bankruptcy or another mechanism to bring all stakeholders to the table for an agreed-upon determination of their future. It is important that these stakeholders reach reasonable compromises amongst themselves. Creating a government bureaucracy or a "car czar" to arbitrarily pass judgment on the thousands of details involved with a restructuring is akin to nationalizing the auto companies.

Interim Financing: Insurance, Rather than a Taxpayer-Funded Bailout

The Big Three may need some form of interim financing as they finalize their restructuring. In

normal economic times, if their restructuring plan is considered viable, such financing should be available in the private market. Because of the current credit crisis, limited assistance may be appropriate in the form of insurance, rather than a taxpayer-funded government bailout that replaces private investment. We propose that the government provide insurance, funded by the participants with a modest FDIC-like fee, which would cover up to 50 percent of the losses of new investment in the case of default, helping to unlock immediate private investment (not unlike debtor in possession financing). Such insurance would expire on March 31, 2009. This proposal ensures that taxpayers are protected and provides a powerful incentive for the Big Three to quickly implement their restructuring plans.